



CP 2.5 | Use of Debt as a Funding Option

Objective

The objective of this policy is to provide guidance on the potential use of loan borrowings as a legitimate funding alternative in developing responsible, sustainable financial strategies to deliver proposed capital projects.

Scope

This policy applies to consideration of external financing opportunities that may help facilitate the delivery of the City's strategic capital works initiatives in circumstances where traditional funding sources such as rates, fees and charges and grant revenue are inadequate to sustain the project proposals.

Policy statement

The use of borrowing is to be explored as a legitimate funding alternative in the development of financial strategies for City initiatives (subject to the principles of responsible financial management). Borrowed funds are only to be included in the overall funding package to facilitate funding of significant projects of a capital nature and are not to be used to make up shortfalls in recurrent operational funding.

1. Circumstances when Borrowing is Appropriate

Council will consider borrowing money for the acquisition or construction of an asset where any of the following conditions are met:

- The asset to be acquired is a new addition to the City's asset base or replaces an existing asset with one that is significantly larger and has an economic life of greater than 10 years
- All alternative options for undertaking the project without borrowing, have been investigated and proven less advantageous to the City
- The index of the cost of acquisition or construction is increasing at a rate that exceeds the cost of borrowing i.e. to 'save' for the acquisition or construction will result in the actual cost being greater than the cost of borrowing the money and acquiring or constructing the asset today.
- The benefits received (cost savings or income earned) from undertaking the borrowing should be greater, over the life of the borrowing, than the costs of borrowing.
- Proper and detailed analysis of the costs and benefits of the borrowing has been undertaken and documented.



2. Borrowing not Appropriate

Borrowings are not to be considered for the following purposes:

- To fund operating expenditure
- To fund recurrent capital works such as plant replacement, information technology replacement or road resurfacing.

3. Security for Borrowings

Local government borrowings are secured against the future revenue streams of the local government. Essentially, this is future years Rates revenue. Whilst this does not present any issues for the City, it is important for Council to appreciate that every borrowing commits future rates revenue to debt servicing. This must be considered, understood and factored into future financial planning activities through the Long Term Financial Plan.

4. Borrowing Terms

The use of borrowings is a responsible way to address the issue of inter-generational equity. Using borrowings makes it possible to equitably spread the full cost of long life community assets among the generations of ratepayers benefitting from those community assets.

The term of borrowings is to be determined relative to the expected useful life of the asset.

5. Interest Rate

Borrowings are to be undertaken only where the loan interest rate is known with certainty and can be fixed for the term of the loan. Typically, for local government borrowings, this will limit borrowing to funding options from WA Treasury Corporation.

6. Borrowing Ratios & Debt Covenants

When determining funding options in the development of the annual budget, regard is to be had to the impact on relevant financial ratios of any proposed borrowings.

The City will not borrow funds when such borrowing does not meet the minimum financial ratio requirements of the Debt Service Cover Ratio being between 2.00 and 5.00 times coverage (DLG Guideline band is between 2.0 and 5.0 times) projected over the next 5 years.

This ratio indicates the City's ability to service debt. The lower the ratio, the higher the risk that the City will be unable to service debt repayments. This is a statutory ratio that is required to be reported in the Annual Financial Statements.

The City will not borrow if the Gross Debt to Operating Revenue Ratio exceeds 20% (WA Treasury Corp Guideline is 40%) projected over the next 5 years. This is a management ratio used by WATC. This ratio indicates the extent to which debt could be met by its operating revenue.



7. WATC Master Lending Agreement

City borrowings are governed by a Master Lending Agreement with WA Treasury Corporation (WATC). This Agreement consolidates all existing loans from WATC to the City of Perth under the Local Government Master Lending Agreement and facilitates any future borrowings under the one agreement thereby removing the need for individual loan agreements to be executed under seal each time the City of Perth borrows from WATC.

8. Borrowing Approvals

All new borrowings are to be undertaken in accordance with Section 6.20 of the Local Government Act (1995) which sets out the legislative provisions relating to local government borrowings. The City is required to meet all those legislative obligations in addition to being a party to the Local Government Master Lending Agreement.

All proposals involving the use of borrowed funds are to be subjected to critical financial analysis and a report submitted to Council for final endorsement prior to undertaking the borrowing. Presentation of the borrowing proposal through the budget process is considered to achieve this reporting obligation.



Document control

Policy context

Legislation, standards & external guidelines	Local Government Act 1995 – Section 6.20
Policies and procedures	Related Policy 2.3 – Strategic Financial Planning & Budgeting
Strategies, plans and frameworks	

Document custodian

Alliance	Corporate Services Alliance	Service unit	Finance Services
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Review management

Next review due	August 2026	Document management ref.	EDRMS-1336483316-834
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Document management

Version	Adopted by	Adoption date	Synopsis of changes
1.0	Ordinary Council Meeting	23 February 2021	New policy adopted forms part of suite of new policies replacing Council policy 9.1 Budget
2.0	Ordinary Council Meeting	29 August 2023	Policy reviewed by Council.